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MDRT Minute

Let's Talk! Life Insurance Conversations that Empower Clients

A life insurance contract can be a blessing to people and their families. It can eliminate emotional distress, remove financial hardship and give hope at a time when little seems possible. For some reason, however, many people who could benefit from owning life insurance never end up purchasing a policy. Often the main driver behind this phenomenon is a lack of education about the fundamentals of life insurance. Too many people do not understand the basics of life insurance and are therefore unwilling to invest in something they cannot comprehend. If you want to sell more life insurance, you need to turn your sales pitch into a lesson and become a first-rate educator. Following is series of short, pointed conversations that can change the way you talk to your clients about life insurance and estate planning.

Conversation #1: The Basics, or Life Insurance 101

There are only two things that go into a life insurance contract: (a) premium payments and (b) investment earnings on those accumulating payments. Likewise, there are only two things that come out of a life insurance contract: (a) your share of the expenses and profit margin of the insurance company and (b) the mortality costs (i.e., death benefit payments to survivors of policyholders). Most people understand the nature of three out of those four aspects. The mystery lies in the premiums. People do not understand how they are calculated and are therefore reluctant to begin paying them. As their advisor, you need to help them understand the fundamental drivers of the value of a premium if you are going to convince them to purchase and maintain a life insurance policy. The fundamental factors that determine the size of insurance premiums are (a) the number of people who purchase a life insurance policy with certain characteristics in common such as age and health, (b) the value of the death benefit guarantee on the insurance policy and (c) the likelihood any one of the insured has of dying during the term of the contract.

Conversation #2: Life Insurance as an Accumulation Device

Life insurance policies are one of the most important savings vehicles in the United States. One reason for this is that the premium notice comes in the form of a bill, and people just pay it. Furthermore, unlike other savings and accumulation options, if the person doesn't pay the bill, he or she loses the insurance protection. Life insurance also offers valuable tax benefits. The cash value accumulates tax free, and if the policy is structured properly, the owner of the policy can receive tax-free withdrawals to basis and then borrow the cash value out without tax. Let's look at an example to see how this works: An owner of a policy is a 45-year-old male who pays $25,000 for 10 years. Beginning at age 70, he can take out $67,233 for 20 years. This means that he would have an internal rate of return of 6.03 percent at age 90. Assuming a 35 percent tax bracket, he would have to earn 9.27 percent on taxable investment to get the same rate of return. So why doesn't everyone put all of their money into this? Because people mistake life insurance for a short-term investment, and when they don't see an immediate return, they become frustrated. Before you sell insurance as an accumulation device, make sure the prospect has enough short-term investments and understands the difference between long- and short-term investments.

Conversation #3: Free the Hostages

When clients come to see you, they usually have several goals. The most important goal is always to maintain their standard of living. Although they might love to give money to their children, fund their grandchildren's education, donate to charity or take a trip around the world, all these other goals are held hostage by that one lifestyle goal. Until they can get absolute certainty that this goal is secured, all their other goals and desires will go unfulfilled. One way to free the hostages and create some certainty around the amount of money your clients need for their lifestyle is to show them how much an immediate annuity would cost for their lifestyle needs. With an immediate annuity, the clients give the life insurance company a lump sum of money, and the insurance company promises to pay them an income for the rest of their lives. Even if they don't purchase the annuity, they now know what the number is for their lifestyle needs and can use their other assets to fulfill their other lifetime goals.

As an advisor, you need to have your clients' best interests at heart. It is up to you as their advisor to translate your financial expertise into language they can understand. It is up to you to frame the financial challenges they will face in their future in the correct way and show them how certain financial products can be the optimal solutions to those challenges. It is not just about increasing sales and expanding your business; it is about what is right for the clients.

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